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No. 87-125

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1987

NEC ELECTRONICS INC.,
Petitioner,

VS.

CAL CIRCUIT ABCO, INC., et al.,
Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

REPLY BRIEF OF PETITIONER

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REPLY BRIEF OF PETITIONER

INTRODUCTION

Petitioner NEC Electronics Inc. ("NECEL") has asked this Court to review the Ninth Circuit's decision in this case on the following grounds: (1) the court of appeals' holding that the Lanham Act is designed to remedy only confusion as to the "origin" or "make" of a product directly conflicts with the Lanham Act itself, prior Ninth Circuit opinions, and other federal appellate decisions; (2) the court of appeals' opinion conflicts with this Court's decisions concerning the applicability of federal trademark law to the resale of genuine goods; (3) the Ninth Circuit's holding that affiliated U.S. markowners are *per se* barred from Lanham Act relief against gray marketeering directly conflicts with the Second Circuit's opinion in *Original Appalachian Artworks*; and (4) since in *COPIAT* this Court has before it the issue of whether affiliated U.S. markowners are entitled to relief from gray marketeering under the Tariff Act, this Court should also review this case to settle the parallel question of whether such relief is available under the Lanham Act.[1]

Respondent Cal Circuit ABCO, Inc. ("Cal ABCO") opposes the petition by arguing that despite widespread consumer confusion here, U.S. trademark owners who are affiliated with the foreign manufacturer of the gray market goods, and who have obtained the U.S. trademark by assignment (rather than purchase) are not entitled to relief from gray marketeering under the Lanham Act. To support this theory, Cal ABCO relies principally on the Ninth Circuit's misinterpretation of this Court's decision in *Katzel*, asserting that *Katzel* would not have been decided the same way had the plaintiff there been affiliated with the foreign manufacturer of the gray market product. The remainder of Cal ABCO's brief consists of strained efforts to reconcile clearly conflicting lower court decisions in such a way that they appear to support its reading of *Katzel*.

Cal ABCO neglects, however, to address important errors which were fundamental to the Ninth Circuit's opinion. First, Cal ABCO does not contest NECEL's analysis of the authorities uniformly holding, contrary to the circuit court's decision here,

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[1] Contrary to Cal ABCO's assertion, the relief NECEL seeks from this Court falls exactly within the "character of reasons" for granting review provided for in Supreme Court Rule 17.1.

that the Lanham Act redresses all types of confusion, not merely that as to source or origin. Second, Cal ABCO does not address NECEL's analysis of this Court's decisions in *Prestonnettes, Inc. v. Coty*, 264 U.S. 359 (1924) and *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947), which squarely hold, contrary to the decision below, that federal trademark law *does* apply to the resale of genuine goods in a manner likely to cause confusion, and that remedies to prevent such confusion are appropriate. Petition, at 26-27. Had the Ninth Circuit recognized either of these two points, it could not have reached the same result. The matters raised in Cal ABCO's opposition to NECEL's petition do not detract from—indeed they emphasize—the need for this Court to review the serious errors in the opinion below.[2]

I

NECEL's Argument That The Issues in *COPIAT* are Directly Related and Parallel To The Issues Here Is Entirely Consistent With NECEL's Position In the Ninth Circuit.

Cal ABCO's argument that NECEL has "reversed its position" regarding the applicability of the Tariff Act and Customs regulations to the facts of this case is untrue. Cal ABCO argued below that relief under *the Lanham Act* is not available to affiliated U.S. markowners. As support for that proposition, however, Cal ABCO cited § 133.21 of the Customs Service regulations which purports to deny at-the-docks seizure relief to related markowners under *the Tariff Act*, and relied heavily upon gray market cases involving *only* the Tariff Act and the Customs regulations. Since there was (and still is) no Tariff Act claim in

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[2] In its "Statements of Facts", Cal ABCO represents that it exists solely because "NEC Corporation sells its computer chips abroad at prices substantially lower than the prices charged in the U.S." Opp. Brief, at 2. Cal ABCO then cites the Ninth Circuit's unsupported accusation of price discrimination. *Id.* There is no support for this accusation in the record, and the issue was never briefed or addressed below. Gray markets cannot be arbitrarily attributed to discriminatory pricing, but rather are caused by international currency fluctuations, and other economic factors. *See, e.g., Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, No Civ. 87-1995, slip op. at 1 (D.N.J. June 30, 1987); Nolan-Hanley, *The Competitive Process and Gray Market Goods*, 5 N.Y.L. Sch. J. Int'l & Comp. L. 231, 232 (1984); Petition, at 10, 18 n.14.

this case, NECEL argued that Cal ABCO's reliance on these cases, the Tariff Act, and the Customs regulations was confusing and had no bearing on the correct application of Sections 32 and 43 of the Lanham Act to the case at bar.

NECEL has not changed its position. NECEL has only pointed out that there is a direct *practical* and *commercial* relationship between this case and *COPIAT* in the sense that these cases represent what have been perceived by markowners and lower courts nationwide as two separate and distinct statutory remedies against gray marketeering. Since numerous U.S. markowners are looking to both the Lanham Act and the Tariff Act for relief from gray marketeering [Petition, at 12], and since lower courts are split on the proper interpretation and application of both Acts [Petition, at 12, 17], deciding only the issues raised in *COPIAT* will resolve only half the question of what relief is available to U.S. trademark owners.

Contrary to Cal ABCO's contention, it seems inconceivable that this Court's decision in *COPIAT* will dispose of the Lanham Act issues posed in this case. A decision from this Court concerning the Tariff Act will neither ratify nor remedy the Ninth Circuit's misapplication of the Lanham Act.[3] Congress' enact-

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[3] If this Court were to rule (as the Second Circuit in *Olympus*) that the Customs regulations are a legitimate exercise of Customs' *enforcement discretion*, the issues concerning the scope of private judicial remedies against gray marketeering under not only the Tariff Act, but also the Lanham Act, become all the more important. *Olympus Corp. v. United States*, 719 F.2d 315, 320 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (Customs' exercise of enforcement discretion does not preclude markholders from pursuing judicial remedies under the Tariff Act or other statutes.) If the Court were to rule (as the Third Circuit in *Vivitar*) that the regulations are a proper *interpretation* of the Tariff Act, and that affiliated markowners such as NECEL simply are not entitled to the unconditional remedy against importation contained in Section 526, the issues pertaining to such markowners' entitlement to Lanham Act relief for confusing uses of their marks in U.S. commerce likewise become even more important. *Vivitar v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986). Finally, if this Court were to affirm the District of Columbia Circuit's ruling in *COPIAT* that the regulations are *invalid* as conflicting with the plain language of Section 526 of the Tariff Act, the Lanham Act issues would remain unresolved.

ment of the import restrictions embodied in Section 526 of the Tariff Act is entirely consistent with the existence of a complementary remedy under the Lanham Act in cases where a markowner, such as NECEL, shows a likelihood of confusion resulting from unauthorized use of its mark in U.S. commerce.

II

This Court's Decision In *Katzel* Provides In Unconditional Terms That The Trademark Laws Prohibit Parallel Importation And Sale Of Gray Market Goods In The U.S.; The Decision Was Not Premised On Plaintiff's Corporate Independence And Purchase Of The Trademark.

Despite Cal ABCO's assertions to the contrary, the language of Sections 32 and 43 of the Lanham Act, 15 U.S.C. sections 1114 and 1125, is broad enough to encompass so-called "genuine" gray market goods. *See, e.g., Original Appalachian*, 816 F.2d at 73. Section 1114(a) speaks not only of "counterfeit" marks, but prohibits "*use* in commerce [of] *any* reproduction . . . of a registered mark . . . which is likely to cause confusion, or to cause mistake, or to deceive." Section 1125(a) applies to "any person who shall . . . *use*" a mark in a manner constituting "a false designation of origin, or any false description of representation . . ." The fundamental purpose of both sections is to prevent *any* use of another's mark in a manner likely to confuse. Cal ABCO is using NECEL's "NEC" mark in a manner likely to confuse within the meaning of section 1114(a), and in a manner constituting a "false designation of origin," and "false description or representation" under section 1125(a), in that Cal ABCO's use of the mark leads customers falsely to believe that the branded product originates from and is sponsored and backed by NECEL in the U.S.

Cal ABCO's statement that "the authorities are consistent" in holding "that under the Lanham Act there can be no trademark infringement by the importation of genuine goods" is clearly wrong. In addition to *Katzel*, there are numerous decisions holding that "genuine" goods can, and do, create confusion under Sections 32 and 43 of the Lanham Act. *See, e.g., The Dial Corp. v. Manghnani Investment Corp.*, No. B-86-180 (TFGD), slip op. at 8 (D. Conn. March 20, 1987) (LEXIS, Genfed Library, Dist file) ("The court disagrees with defendants' contention that "genuine" goods cannot create confusion."); *Weil Ceramics &*

Glass, Inc. v. Dash, 618 F. Supp. 700, 704-05 (D.N.J. 1985); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, (S.D.N.Y. 1984); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1982), *rev'd on other grounds*, 719 F.2d 42 (2d Cir. 1983).[4] In fact, in every *true* gray market case that has *squarely addressed* the issue of whether the Lanham Act applies to the sale of genuine goods, the court has concluded that it does. Petition, at 18-26.

Although the term "genuine" is frequently used to refer to any legitimately labeled product, foreign or domestic, it makes more sense and is more consistent with the "territoriality" principle espoused in *Katzel* to say that whether goods are "genuine" must be determined within territorial borders in light of the U.S. markholder's goodwill-producing activities. *See, e.g., Osawa*, 589 F. Supp. at 1171-72; *Weil Ceramics*, 618 F. Supp. at 710; *Ballet Makers*, 633 F. Supp. at 1334 n.6. NECEL has never "admitted" that the NEC product sold by Cal ABCO is "genuine" in this sense. For purposes of the motions below, NECEL stipulated that Cal ABCO's product is "genuine" *in the sense that it is manufactured by NEC Corporation.* However, the "product" NECEL sells *in the U.S.* is markedly different from the components that leave the factory in Japan or elsewhere overseas because NECEL's components are accompanied by the unique service,

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[4] The cases cited by Cal ABCO simply do not stand for the proposition advanced. First, the pertinent discussion in *Olympus* was limited to Section 42 of the Lanham Act, 15 U.S.C. § 1124, which is not involved in this case. 792 F.2d at 321-22. Second, in *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), the Second Circuit vacated the lower court's injunction on the sole ground that plaintiff had failed to present sufficient evidence of irreparable injury. 719 F.2d at 46. Similarly, in *DEP Corp. v. Interstate Cigar Co.*, 622 F.2d 621 (2d Cir. 1980), the court never addressed the genuine goods issue because plaintiff DEP lacked standing to assert it. 622 F.2d at 622 n.1. *Ballet Makers, Inc. v. United States Shoe Corp.*, 633 F. Supp. 1328 (S.D.N.Y. 1986), like *Monte Carlo Shirt, Inc. v. Daewoo Int'l (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983), is an "unauthorized-sale-of-authorized goods" case, where the plaintiff actually authorized the manufacture of the goods overseas for sale in the U.S. 633 F. Supp. at 1335. Finally, *Parfums Stern, Inc. v. United States*, 575 F. Supp. 416 (S.D. Fla. 1983) appears to have been premised on the Tariff Act, not the Lanham Act. 575 F. Supp. at 420-21.

quality control, and warranty support which are publicly associated with NECEL's "NEC" mark in the U.S. and which are inseparable parts of NECEL's product. Thus, although Cal ABCO apparently purchases genuine "NEC" semiconductors overseas, when it sells only the "naked" semiconductor *in the U.S.*, the product cannot be said to be "genuine" vis-a-vis the product sold by NECEL, and this is precisely what causes consumer confusion. *See* discussion, *infra*, at pp. 8-9.

This Court addressed an identical situation in *Katzel*. Cal ABCO's, and the Ninth Circuit's, argument that *Katzel* is limited to those situations where the U.S. trademark owner is completely independent from the foreign manufacturer and has actually *purchased* the trademark, is unsupported by the decision itself, and makes no legal or economic sense.[5]

The proposition that an affiliated U.S. markowner can never build up independent U.S. goodwill in a trademark flies in the face of the "territoriality principle." *Katzel*, 260 U.S. at 692; *Weil Ceramics*, 618 F. Supp. at 710-12. The existence of a corporate affiliation between the U.S. markowner and the foreign manufacturer has no logical relationship to whether the U.S. markowner has established distinct U.S. goodwill for the mark, and it has nothing to do with the likelihood of confusion caused by gray market sales. As the courts in *Osawa* and *Weil Ceramics* recognized, and as the evidence and district court findings in this case make so clear, the confusion caused by gray marketeering can

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[5] The effect of an assignment is the same as that of a sale. 3 R. Callmann, *Unfair Competition, Trademarks and Monopolies* § 19.46, at 19-200 (L. Altman 4th ed. 1983). Moreover, in the assignment from NEC Corporation, NECEL received all of the goodwill associated with the "NEC"-mark as applied to semiconductors sold in the U.S. E.R. 1:29-31. Cal ABCO represents that "NEC Corporation did not transfer the entire goodwill to NECEL, since NEC Corporation continues to promote and sell the same goods in the United States." Opp. Brief, at 2, 12. As support for this factual assertion, which has no basis in the evidence or the findings below, Cal ABCO relies on an inadmissible magazine ad which promotes office automation systems sold by *NEC America, Inc.*, and an inadmissible newspaper story concerning a proposed joint venture between NEC Corporation and Boeing to develop a new product. The fact is that NEC corporation *does not* promote and sell semiconductors in the U.S.

occur irrespective of corporate affiliation. And when there is likelihood of confusion, the Lanham Act should provide relief.

Cal ABCO's analysis of the Ninth Circuit's decisions in *Monte Carlo* and *Model Rectifier* does not change this result. First, *Monte Carlo* is not a true gray market case.[6] Second, despite Cal ABCO's argument to the contrary, *Model Rectifier* is in direct conflict with the Ninth Circuit's decision here, and does not adhere to Cal ABCO's distorted *Katzel* analysis. If the court in *Model Rectifier* did "[recognize] the distinction between a parent-subsidiary relationship and the sale of trademark rights to a truly independent company," as Cal ABCO contends, it does not appear in the opinion. In holding that the Lanham Act redresses the likelihood of confusion caused by gray marketeering, the court cited not only *Katzel*, but also *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, where the plaintiff, *an affiliated* U.S. markowner, had obtained district court relief under Section 1114 of the Lanham Act. 221 U.S.P.Q. at 503. Thus, (1) *Model Rectifier* does not support Cal ABCO's analysis of *Katzel*, and (2) the Ninth Circuit's opinion in this case cannot be reconciled with its decision in *Model Rectifier*.[7]

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[6] *Monte Carlo* has been correctly categorized as a case concerning the unauthorized sale of authorized goods. *See, e.g., Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68, 72 (2d Cir. 1987); *See* discussion, *supra*, at p. 5 n.4; *see also Sasson Jeans, Inc. v. Sasson Jeans L.A., Inc.*, 632 F. Supp. 1525 (S.D.N.Y. 1986); *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F. Supp. 470 (S.D.N.Y. 1984). *Monte Carlo* and its progeny bear no resemblance to true gray market cases like this case, *Osawa*, *Weil* and *Model Rectifier* because, *inter alia*, in true gray market cases the U.S. markowner has *not* authorized or sponsored the goods for sale *on the U.S. market.*

[7] As for the other "factors" which Cal ABCO contends influenced the Ninth Circuit's decision in *Model Rectifier*, NECEL has satisfied all of them. NEC Corporation did transfer to NECEL the entire goodwill for the "NEC" mark as it applies to semiconductors sold in the U.S., and as noted above, NEC Corporation does not promote and sell semiconductors in the U.S. Petition, at A-16. As to monetary consideration, the district court properly held that "the lack of monetary exchange does not operate to prevent the valid transfer of the 'NEC' mark . . ." *Id.*; *Rogers & Gallet v. Janmarie Inc.*, 245 F.2d 505, 511 (C.C.P.A. 1957), *aff'd*, 263 F.2d 350 (C.C.P.A. 1959).

The Ninth Circuit's opinion, and Cal ABCO's analysis, also conflict with *Osawa* and *Weil Ceramics*, which hold that affiliated U.S. markowners are entitled to Lanham Act relief, reasoning that a corporate relationship with the foreign manufacturer of the gray market goods does not, in and of itself, preclude the U.S. markowner from developing separate and independent goodwill for the mark in the U.S. *Osawa*, 589 F. Supp. at 1174; *Weil Ceramics*, 618 F. Supp. at 711. This analysis is consistent with *Katzel's* "territoriality principle." When a U.S. markowner like NECEL engages in goodwill-producing activities such as front-end technical support, extensive quality control, advertising, and warranty service, gray market goods cannot be considered "genuine" *in the U.S.* because they are offered independently of these services and marketing activities which are integral parts of the U.S. markowner's truly "genuine" product. The Ninth Circuit erred in ignoring the tremendous amount of evidence NECEL presented in this regard, and as a result, rendered an opinion at odds with not only *Katzel, Weil Ceramics*, *Osawa*, and *Model Rectifier*, but also with *Original Appalachian Artworks*.

III

The Second Circuit's Analysis of the "Genuine" Goods and Corporate Affiliation Issues in *Original Appalachian* Cannot be Reconciled With the Ninth Circuit's Decision Here.

Cal ABCO argues that the Second Circuit's decision in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987) is not inconsistent with the Ninth Circuit's decision here because the goods in *Original Appalachian* were not "genuine". This argument completely ignores the Second Circuit's "genuine" goods analysis and advances a conclusion unsupported by the law and facts.

All of the courts addressing true gray market cases have noted that under the *Katzel* "territoriality" principle, whether goods are "genuine" must be determined within territorial borders in light of the goodwill-producing activities of the markowner in the particular territory. This theory was adopted by the court in *Original Appalachian*: "[E]ven though the goods bear OAA's trademark and were manufactured under license with OAA, they are not 'genuine' goods because they differ from the Coleco dolls *and were not authorized for sale in the United States.*" 816 F.2d at 73 (emphasis added; citing with approval *Osawa*). The court distinguished cases like *Monte Carlo*, *Diamond Supply*, *Ballet*

Makers and *El Greco* on the grounds that, like the "NEC"-marked semiconductors at issue here, the gray market goods ("Cabbage Patch Kid" dolls) were *not* intended for sale in the U.S. and were materially different from the overall product sold by plaintiff in the U.S. 816 F.2d at 73. Only those foreign-manufactured goods intended for sale in the U.S. and in *all respects identical to* the product being sold by the U.S. markowner in the U.S. can truly be labelled "genuine."

The "NEC"-marked semiconductors sold by Cal ABCO are not true "genuine" goods. First, Cal ABCO's products are admittedly sold without free front-end technical assistance, warranty service, or proper quality control. E.R. 32:1482; E.R. 50:1862-64. Second, the products purchased by Cal ABCO from unknown sources overseas are *not* intended for sale in the U.S.[8] As in *Original Appalachian*, when these products are sold by Cal ABCO in the U.S. confusion results. Petition, at A-31 to A-59.

The Ninth Circuit's opinion here also conflicts with *Original Appalachian* on the issue of corporate affiliation. Plaintiff in *Original Appalachian* owned and controlled the trademark worldwide. The court held because "section 1114 [of the Lanham Act] was intended to prevent *any* consumer confusion over similar goods," "the fact that a single entity owns the trademark worldwide is not dispositive." 816 F.2d at 75 (emphasis added). *Ipso facto* worldwide mark ownership by *affiliated* companies should not be dispositive. Unlike the Ninth Circuit, the Second Circuit realized that corporate affiliation has no bearing on whether or not consumer confusion will result from the sale of gray market goods. *See* Petition, at 14-16. Indeed, the Ninth Circuit completely ignored the fact that confusion other than that as to "source" or "origin" of a product is actionable under the Lanham Act. Petition, at A-5; *see also Original Appalachian*, 816 F.2d at 74-76 (Cardamone, J., concurring).

The breadth of confusion remedied under the Lanham Act is well illustrated by the *El Greco* decision. In *El Greco*, the district court denied Lanham Act relief to a U.S. trademark owner on the theory that there could be no confusion because, as in *Monte*

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[8] Cal ABCO's argument that NEC America's spot purchase of "NEC"-marked semiconductors from Cal ABCO for shipment *back to Japan* somehow indicates that Cal ABCO's gray market NEC product was intended for sale *in the U.S.* is self-contradictory.

Carlo, plaintiff had originally authorized and sponsored the goods that were now being sold without its authorization in the U.S. The Second Circuit reversed, holding that although the goods had been manufactured by agreement with the trademark owner, they were not "genuine" because the goods had been sold without inspection by the owner to insure quality. 806 F.2d at 395. The court concluded that the mark owner *was* entitled to relief under Section 1114 of the Lanham Act because the unauthorized sale of the goods without inspection deprived the markowner of the right to control the products and could mislead consumers into believing that the trademark owner had approved the goods for sale. *Id.* NECEL is suffering similar deprivation of the right to control the quality of the semiconductors sold by Cal ABCO. Petition, at 25.

Under *Original Appalachian* and *El Greco*, NECEL is entitled to Lanham Act relief on two grounds: (1) for the confusion as to sponsorship, affiliation, connection and product backing caused by Cal ABCO's sale of NEC product; and (2) for the loss of the right to control the quality of (and hence the goodwill associated with) all semiconductors sold in the U.S. under the "NEC" mark. The Ninth Circuit's reversal of district court's decision, which recognized the need for Lanham Act relief on these grounds, was clearly erroneous, and warrants review by this Court.

CONCLUSION

The petition for writ of certiorari should be granted.

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